

EXHIBIT A
to
Ordinance

FORM OF BOND

NO. _____

\$_____

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS,
SERIES 2008

MATURITY DATE INTEREST RATE DATE OF DELIVERY CUSIP

ON THE MATURITY DATE SPECIFIED ABOVE, THE CITY OF
AUSTIN, TEXAS (the "Issuer"), in the Counties of Travis and Williamson, hereby
promises to pay to

or to the registered assignee hereof (either being hereinafter called the "registered
owner") the principal amount of:

_____ DOLLARS

and to pay interest thereon, from the Date of Delivery specified above, to the
maturity date specified above, at the rate of interest per annum specified above,
with said interest being payable on _____ 1, 200_, and semiannually on each
_____ 1 and _____ 1 thereafter; except that if the Paying Agent/Registrar's
Authentication Certificate appearing on the face of this Bond is dated later than
_____ 1, 200_, such interest is payable semiannually on each _____ 1 and
_____ 1 following such date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful
money of the United States of America, without exchange or collection charges.
The principal of this Bond shall be paid to the registered owner hereof upon
presentation and surrender of this Bond at maturity at the designated corporate
trust office in _____, Texas (the "Designated Payment/Transfer Office"), of

_____, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof as shown by the Registration Books kept by the Paying Agent/Registrar at the close of business on the 15th day of the month next preceding such interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof at its address as it appears on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. Any accrued interest due at maturity shall be paid to the registered owner upon presentation and surrender of this Bond for payment at the Designated Payment/Transfer Office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that no later than each principal payment and/or interest payment date for this Bond it will make available to the Paying Agent/Registrar from the Interest and Sinking Fund as defined by the ordinance authorizing the Bonds (the "Ordinance") the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IN THE EVENT OF A NON-PAYMENT of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect

as if made on the original date payment was due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the Issuer and the securities depository.

THIS BOND is one of a Series of Bonds of like tenor and effect except as to number, principal amount, interest rate and maturity, authorized in accordance with the Constitution and laws of the State of Texas, dated _____ 1, 2008, in the principal amount of \$_____, for the purpose of refunding those obligations designated in the Ordinance as the "Refunded Obligations".

ON _____ 1, 201_, or on any date thereafter, the Bonds of this Series maturing on _____ 1, 201_ and thereafter may be redeemed prior to their scheduled maturities, at the option of the Issuer, in whole, or in part, at par and accrued interest to the date fixed for redemption. The years of maturity of the Bonds called for redemption at the option of the City prior to stated maturity shall be selected by the City. The Bonds or portions thereof redeemed within a maturity shall be selected by lot or other method by the Paying Agent/Registrar; provided, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository.

THE BONDS are also subject to mandatory redemption in part by lot pursuant to the terms of the Ordinance, on _____ 1 in each of the years 20__ through 20__, inclusive, with respect to Bonds maturing _____ 1, 20__, in the following years and in the following amounts, at a price equal to the principal amount thereof and accrued and unpaid interest to the date of redemption, without premium:

Year

Principal Amount

* Final Maturity

To the extent, however, that Bonds subject to sinking fund redemption have been previously purchased or called for redemption in part and otherwise than from a sinking fund redemption payment, each annual sinking fund payment for such Bond shall be reduced by the amount obtained by multiplying the principal amount of Bonds so purchased or redeemed by the ratio which each remaining annual sinking fund redemption payment for such Bonds bears to the total remaining sinking fund payments, and by rounding each such payment to the nearest \$5,000 integral; provided, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, the particular Bonds to be called for mandatory redemption shall be selected in accordance with the arrangements between the City and the securities depository.

AT LEAST 30 days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first-class postage prepaid, addressed to each such registered owner at his address shown on the Registration Books of the Paying Agent/Registrar, and to major securities depositories, national bond rating agencies and bond information services. By the date fixed for any such redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required redemption price for this Bond or the portion hereof which is to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such notice of redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion hereof which is to be so redeemed, thereby automatically shall be redeemed prior to its scheduled maturity, and shall not bear interest after the date fixed for its redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such redemptions of principal of this Bond or any portion hereof. If a portion of any Bond shall be redeemed a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000, at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Issuer, all as provided in the Ordinance.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of any integral multiple of

\$5,000. As provided in the Ordinance, this Bond may, at the request of the registered owner or the assignee or assignees hereof, be assigned, transferred, and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 as requested in writing by the appropriate registered owner, assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar at its Designated Payment/Transfer Office for cancellation, all in accordance with the form and procedures set forth in the Ordinance. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any integral multiple of \$5,000 to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond may be executed by the registered owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the registered owner. The one requesting such exchange shall pay the Paying Agent/Registrar's reasonable standard or customary fees and charges for exchanging any Bond or portion thereof. The foregoing notwithstanding, in the case of the exchange of an assigned and transferred Bond or Bonds or any portion or portions thereof, such fees and charges of the Paying Agent/Registrar will be paid by the Issuer. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, or exchange as a condition precedent to the exercise of such privilege. In any circumstance, neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond so selected for redemption, in whole or in part, within 45 calendar days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Bond, and the series of which it is a part, is duly authorized by law; that all acts, conditions and things required to be done precedent to and in the issuance of this series of bonds, and of this Bond, have been properly done and performed and have happened in regular and due time, form and manner as required by law; that sufficient and proper provision for the levy and collection of ad valorem taxes has been made, which, when collected, shall be appropriated exclusively to the payment of this Bond and the series of which it is a part; and that the total indebtedness of the City of Austin, Texas, including the entire series of bonds of which this is one, does not exceed any constitutional or statutory limitation.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Ordinance constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, this Bond has been duly executed on behalf of the City, under its official seal, in accordance with law.

City Clerk,
City of Austin, Texas

Mayor,
City of Austin, Texas

(SEAL)

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION
CERTIFICATE:

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the proceedings adopted by the Issuer as described in the text of this Bond; and that this Bond has been issued in conversion of and exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated:

_____,
Paying Agent/Registrar

By _____
Authorized Representative

FORM OF COMPTROLLER'S CERTIFICATE (ATTACHED TO
THE BONDS UPON INITIAL DELIVERY THEREOF):

OFFICE OF COMPTROLLER :

REGISTER NO. _____

STATE OF TEXAS :

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Bond has been examined by him as required by law, and that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of the City of Austin, Texas, payable in the manner provided by and in the ordinance authorizing same, and said Bond has this day been registered by me.

WITNESS MY HAND and seal of office at Austin, Texas _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

Please insert Social Security or Taxpayer
Identification Number of Transferee

/ _____ /

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature above must correspond with the name of the Registered Owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or any change whatsoever.

The printer of the Series 2008 Bonds is hereby authorized to print on the Series 2008 Bonds (i) the form of bond counsel's opinion relating to the Series 2008 Bonds, and (ii) an appropriate statement of insurance furnished by a municipal bond insurance company providing municipal bond insurance, if any, covering all or any part of the Series 2008 Bonds.

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 13 of this Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or under the headings of the Official Statement referred to) below:

The quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement under the subcaptions: "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates; "Valuation and Funded Debt History"; "Tax Rates, Levy and Collection History"; "Ten Largest Taxpayers"; "Property Tax Rate Distribution"; "Current Investments"; "General Fund Revenues and Expenditures and Changes in Fund Balance"; "Municipal Sales Tax"; and "Transfers from Utility Fund".

The portions of the financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded fiscal year.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the financial statements referred to in paragraph 1 above.

SCHEDULE I

CITY OF AUSTIN, TEXAS CERTIFICATES OF OBLIGATION, SERIES 1997, all outstanding obligations maturing on September 1, 2009, aggregating \$110,000 in principal amount; Redemption Date: March 16, 2008.

CITY OF AUSTIN, TEXAS CERTIFICATES OF OBLIGATION, SERIES 1998, all outstanding obligations maturing on September 1 in each of the years 2013 through 2018, aggregating \$9,765,000 in principal amount; Redemption Date: September 1, 2008.

CITY OF AUSTIN, TEXAS PUBLIC IMPROVEMENT BONDS, SERIES 1998, all outstanding obligations maturing on September 1 in each of the years 2013 through 2018, aggregating \$7,940,000 in principal amount; Redemption Date: September 1, 2008.

CITY OF AUSTIN, TEXAS PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 1998, all outstanding obligations maturing on September 1 in each of the years 2009 through 2016, aggregating \$76,460,000 in principal amount; Redemption Date: March 16, 2008.

CITY OF AUSTIN, TEXAS CERTIFICATES OF OBLIGATION, SERIES 1999, all outstanding obligations maturing on September 1, 2011, aggregating \$285,000 in principal amount; Redemption Date: September 1, 2009.

CITY OF AUSTIN, TEXAS CERTIFICATES OF OBLIGATION, SERIES 2000, all outstanding obligations maturing on September 1 in each of the years 2013 and 2014, aggregating \$680,000 in principal amount; Redemption Date: September 1, 2010.

CITY OF AUSTIN, TEXAS PUBLIC IMPROVEMENT BONDS, SERIES 2000, all outstanding obligations maturing on September 1 in each of the years 2012, 2016 and 2017, aggregating \$14,085,000 in principal amount; Redemption Date: September 1, 2010.

CITY OF AUSTIN, TEXAS CERTIFICATES OF OBLIGATION, SERIES 2001, all outstanding obligations maturing on September 1 in each of the years 2017 and 2018, aggregating \$4,825,000 in principal amount; Redemption Date: September 1, 2011.

CITY OF AUSTIN, TEXAS PUBLIC IMPROVEMENT BONDS, SERIES 2001, all outstanding obligations maturing on September 1 in each of the years 2018 and 2019, aggregating \$12,000,000 in principal amount; Redemption Date: September 1, 2011.

CITY OF AUSTIN, TEXAS PUBLIC IMPROVEMENT BONDS, SERIES 2002, all outstanding obligations maturing on September 1, 2017, aggregating \$6,400,000 in principal amount; Redemption Date: September 1, 2012.

The redemption price for the Refunded Obligations shall be par plus accrued interest to the date of redemption.

Attachment
to
Ordinance

Form of Preliminary Official Statement
(Draft 1 010708 attached hereto)

Ratings Moody's "____"
Standard & Poor's "____"
Fitch "____"

(See "OTHER RELEVANT INFORMATION - Ratings")

NEW ISSUE - Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

\$ _____ *

CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Improvement Refunding Bonds, Series 2008

Dated January 15, 2008

Due September 1, as shown below

Interest on the \$ _____ * City of Austin, Texas (the "City") Public Improvement Refunding Bonds, Series 2008 (the "Bonds"), will accrue from the date of initial delivery of the Bonds to the initial purchasers (the "Underwriters") as shown below and will be payable September 1 and March 1 of each year, commencing September 1, 2008, and will be calculated on the basis of a 360-day year of twelve 30-day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOND INFORMATION - Book-Entry-Only System").

The Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Bonds (see "BOND INFORMATION - Security").

Proceeds from the sale of the Bonds will be used to refund portions of the City's outstanding general obligation debt, and to pay certain costs of issuance of the Bonds. (See "PLAN OF FINANCING - Purpose of Refunding Bonds" and APPENDIX D - "Summary of Bonds Refunded").

MATURITY SCHEDULE*

CUSIP Prefix 052396

<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2009	\$			2015	\$		
2010				2016			
2011				2017			
2012				2018			
2013				2019			
2014							

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2018, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2017, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. See "BOND INFORMATION - Redemption".

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see APPENDIX C - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Dallas, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about March 12, 2008.

Apex Pryor Securities Estrada Hinojosa Morgan Stanley	Lehman Brothers Citigroup Merrill Lynch	Cabrera Capital Markets Morgan Keegan & Company Inc. Southwest Securities
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*Preliminary, subject to change

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), this document constitutes a Official Statement of the City with respect to the Bonds that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman or other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

The information set forth herein has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of the opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described herein since the date hereof. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City or from Public Financial Management, Inc., the Financial Advisor to the City. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS OF ANY OR ALL OF SUCH BONDS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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APPENDICES

General Information Regarding the City
Excerpts From the Annual Financial Report
Form of Bond Counsel's Opinion
Summary of Refunded Obligations

APPENDIX A
APPENDIX B
APPENDIX C
APPENDIX D

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CITY OF AUSTIN

Elected Officials

		<u>Term Expires June 20</u>
Will Wynn	Mayor	2009
Lee Jeffingwell	Councilmember Place 1	2008
Mike Martinez	Councilmember Place 2	2009
Jennifer Kim	Councilmember Place 3	2008
Betty Dunkerley, Mayor Pro Tem	Councilmember Place 4	2008
Brewster McCracken	Councilmember Place 5	2009
Sheryl Cole	Councilmember Place 6	2009

Appointed Officials

Toby Hammett Futrell	City Manager
Laura Huffman	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Assistant City Manager
Bert Lumbrias	Assistant City Manager
Leslie Browder, CPA	Chief Financial Officer
Vickie Schubert, CPA	Deputy Chief Financial Officer
Jeff Knodel, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Gentry	City Clerk

BOND COUNSEL

Fulbright & Jaworski L.L.P.
Austin and Dallas, Texas

SECURITIES COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

The PFM Group
Austin, Texas

AUDITORS

KPMG LLP and R. Mendoza & Company, PC
Austin, Texas

For additional information regarding the City, please contact

Art Alfaro
Treasurer
City of Austin
700 Lavaca, Suite 1510
Austin, Texas 78701
(512) 974-7882
art.alfaro@ci.austin.tx.us

Chris Allen
The PFM Group
700 Lavaca
Suite 1500
Austin, Texas 78701
(512) 472-7194
allenc@pfm.com

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

This data page was prepared to present the Underwriters of the Bonds information concerning the Bonds, the description of the tax base and other pertinent data, all as more fully described herein.

The Issuer The City of Austin, Texas (the “City”), is a political subdivision located in Travis and Williamson Counties, operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor and six councilmembers are elected for staggered three-year terms. The Council formulates operating policy for the City while the City Manager is the chief administrative officer.

The City is approximately 273.10 square miles in area (see APPENDIX A – “General Information Regarding the City”).

The Bonds The Bonds are being issued in the principal amount of \$_____*, pursuant to the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, and an Ordinance passed by the City Council of the City (see “BOND INFORMATION – Authority for Issuance”).

Security The Bonds constitute a direct obligation of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt.

Optional Redemption The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2018, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2017, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see “BOND INFORMATION – Redemption”).

Tax Exemption In the opinion of Bond Counsel, the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds will not constitute private activity bonds. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations.

Payment Record The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

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*Preliminary, subject to change

Selected Issuer Indices

Fiscal Year Ended	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1996	541,889	\$23,303,015,047	\$43,003.30	\$443,247	\$ 817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.50%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	678,769	49,199,408,526	72,483.29	732,407	1,079.02	1.49%	99.21% (3)
2005	695,881	49,702,906,522	71,424.43	784,396	1,127.20	1.58%	100.23%
2006	707,952	52,405,611,874	74,024.24	688,809	972.96	1.31%	100.67%
2007	724,117	60,230,045,084	83,177.23	741,298	1,023.73	1.23%	100.67% (3)
2008	740,645	66,554,200,000 (4)	89,859.78	778,883 (5)	1,051.63 (5)	1.17% (5)	N/A

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31

(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget

(3) Estimated Collections as of June 30, 2007

(4) Certified Appraised Value, including \$4,623,806,542 in property in the appeals process

(5) Projected. Includes the Obligations

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OFFICIAL STATEMENT

Relating to

\$ _____ *

CITY OF AUSTIN, TEXAS

Public Improvement Refunding Bonds, Series 2008

INTRODUCTION

This Official Statement, which includes the cover page, the summary statement and the appendices hereto, provides certain information regarding the issuance by the City of Austin, Texas (the "City"), of \$ _____ * City of Austin, Texas Public Improvement Refunding Bonds, Series 2008 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds (the "Bond Ordinance" or the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement a description of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement and the Escrow Agreement (hereinafter defined) pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

Purpose of Refunding Bonds

The Bonds are being issued to refund approximately \$132,750,000* of the City's currently outstanding general obligation indebtedness (the "Refunded Obligations") and to pay costs of issuance. The purpose of the transaction is to effect debt service savings. See APPENDIX D for a listing of the Refunded Obligations.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Obligations from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Houston, Texas (the "Escrow Agent"). The Ordinance provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Securities") to be held in the Escrow Fund. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

The Arbitrage Group, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the debt service on the Bonds.

By deposit of the Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into a firm banking and financial arrangement for the discharge and final payment of the Refunded Obligations, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Securities and cash held for such purpose by the Escrow Agent, and such Refunded Obligations will not be deemed as being outstanding for the purpose of any limitation on debt or the assessment of taxes.

*Preliminary, subject to change

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, or any additional amounts required to pay the principal of and interest on the Refunded Obligations, if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Sources and Uses of Funds

The proceeds of the Bonds will be applied substantially as follows:

Sources of Funds	
Principal Amount of the Bonds	\$ _____
Original Issue Premium	_____
Total Available Funds	<u>\$ _____</u>
Uses of Funds	
Deposit to Escrow Fund	\$ _____
Costs of Issuance	_____
Underwriter's Discount	_____
Total Available Funds	<u>\$ _____</u>

BOND INFORMATION

Authority for Issuance

The City is authorized to issue the Bonds under authority granted by Chapter 1207, Texas Government Code, and by the Bond Ordinance.

General

The Bonds are dated January 15, 2008 and shall bear interest on the unpaid principal amounts from the date of initial delivery to the Underwriters, at the respective per annum rates shown on the cover page. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Bonds are issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a maturity.

The record date (the "Record Date") for the interest payable on any interest payment date is the 15th day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest, which shall be at least 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each bondholder appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Security

The Bonds constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt.

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter sometimes referred to herein as the "Charter" which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. Within such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

Bondholder Remedies

The Ordinance obligates the City Council to assess and collect an annual ad valorem tax sufficient to pay when due the respective principal of and interest when due on the Bonds and they also create a pledge of such tax to the payment of the Bonds.

Upon the failure of the City to make payment of principal or interest when the same becomes due and payable, then any bondholder, or an authorized representative thereof, including but not limited to, a trustee or trustees therefore, may proceed against the City by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained therein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the bondholder thereunder or any combination of such remedies but the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under the Ordinance. All such proceedings shall be instituted and maintained for the equal benefit of all such bondholders.

Although a bondholder could presumably obtain a judgment against the City if a default occurred in the payment of principal or interest on the Bonds, such judgment could not be satisfied by execution against any property of the City. The bondholder's only practical remedy, if a default occurs in the payment of principal or interest, is a mandamus or mandatory injunction proceeding to compel the City Council to levy, assess and collect an annual ad valorem tax within the tax rate limitation sufficient to pay principal and interest as it becomes due. The bondholder could be required to enforce such remedy on a periodic basis. No right to accelerate maturity is granted by the Ordinance.

The enforcement or claim for payment of principal of or interest, including the remedy of mandamus, and the validity of the pledge of taxes, would be subject to the applicable provisions of the federal bankruptcy laws and to other laws affecting the rights of creditors of political subdivisions generally.

Redemption

Optional Redemption. The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2018, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2017, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

At least thirty days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating thereto contained in the Ordinance. If a Bond (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date thereof, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

Defeasance of Bonds

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date, Bonds which have been defeased to their maturity date, if the City in the proceedings providing for the firm banking and financial arrangements (i) expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Book-Entry-Only System

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial

Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

Subject to DTC’s policies and guidelines, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC’s book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is U S Bank National Association. Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in Houston, Texas (the "Designated Payment/Transfer Office"). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt thereof to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1, V.T.C.A. Tax Code (commonly known as the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. State law further limits the appraised value of a residence homestead for a tax year (the "Homestead 10% Increase Cap") to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code for identification of property subject to taxation, property exempt or which may be exempted from taxation, if claimed, the appraisal of property for ad valorem taxation purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes

Article VIII of the State Constitution ("Article VIII") and State Law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation

Under Section 1-b, Article VIII, and State Law, the governing body of a political subdivision, at its option, may grant

- (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision,
- (2) An exemption of up to 20% of the market value of residence homesteads, minimum exemption \$5,000

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a sum of \$12,000

In a statewide election held on September 13, 2003, voters approved an amendment to Section 1-b, Article VIII of the Texas Constitution, that would authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. The City is now authorized to freeze ad valorem taxes on residence homesteads of persons who are disabled or sixty-five years of age or older. If the City Council does not take action to establish the tax limitation, voters within the City may submit a petition signed by five percent of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older at the time of the person's death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation

The City Council has not determined at this time what action, if any, it will take regarding this constitutional amendment. The City can make no representations or predictions concerning the impact such a tax limitation would have on the taxing rates of the City or its ability to make debt service payments. To date, no valid petition has been presented to the City Council requesting that an election be conducted

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1

Personal property not used in the business of a taxpayer, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. The City grants such exemption

The City grants an exemption to the appraised value of the residence homestead of persons 65 years of age or older and to the disabled of \$51,000

The City may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

In December 2004, the City approved the creation of a tax increment reinvestment zone encompassing property consisting of the old Robert Mueller Municipal Airport. A multi-use development of the property within the boundaries of the zone is envisioned, and the City has entered into discussions with Catellus Austin LLC to oversee the redevelopment of this property. Currently, all of the property within the zone is owned by the City, however, as development occurs property will from time to time be sold to private individuals and entities.

Tax Valuation

January 1, 2007 Appraised Valuation (1)		\$64,543,030,928
Less Local Exemptions to Assessed Values (2)		
Residential Homestead over 65	\$1,162,201,311	
Homestead 10% Increase Cap	1,173,958,416	
Disabled Veterans	37,765,175	
Agricultural and Historical Exemptions	414,165,042	
Disability Exemption	115,173,978	
Freeport Exemption	<u>1,409,721,921</u>	<u>4,312,985,844</u>
January 1, 2007 Net Taxable Assessed Valuation (1)		<u>\$60,230,045,084</u>

- (1) 2007 Certified Appraised Value includes \$4,623,806,542 in property in the appeals process.
- (2) Exemptions or adjustments to assessed valuation granted in 2007 include (a) exemptions of \$51,000 for resident homestead property of property owners over 65 years of age, (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year, (c) exemptions ranging from \$5,000 to \$12,000 for property of disabled veterans or certain surviving dependents of disabled veterans, (d) certain adjustments to productive agricultural lands, (e) exemptions to the land designated as historically significant sites by certain public bodies, (f) exemptions of \$51,000 to disabled resident homestead property owners, (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

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Statement of Debt (As of December 31, 2007)

The following table sets forth on a pro forma basis the amount of Public Improvement Bonds, Assumed Bonds, Certificates of Obligation and Contractual Obligations outstanding and certain debt ratios related thereto

Public Improvement Bonds (1)	\$648,955,000	
Certificates of Obligation (1)	129,575,000	
Contractual Obligations	54,065,000	
Assumed Bonds (2)	8,390,000	
The Bonds (3)		
Total		\$968,395,000
Less Self-Supporting Debt		
Assumed Bonds (2)	\$ 7,628,768	
Airport (4)	316,125	
Austin Energy (4)	1,605,377	
City Hall	30,213,546	
CMTA Mobility (5)	17,030,000	
Communication & Technology Management (4)	11,650,628	
Convention Center (4)	22,976,151	
Financial Services (4)	26,154,255	
Fleet Management (4)	5,850,853	
Golf (4)	6,055,710	
One Texas Center (4)	12,365,000	
Solid Waste (4)	30,471,165	
Transportation (4)	7,043,376	
Water and Wastewater (4)	16,774,318	
Watershed Protection (4)	<u>11,883,951</u>	\$208,019,223
Interest and Sinking Fund, All Public Improvement Bonds (6)		<u>40,010,090</u>
Net Debt (7)		\$720,365,687
Ratio Total Debt to 2008 Net Taxable Assessed Valuation		1.42%
Ratio Net Debt to 2008 Net Taxable Assessed Valuation		1.06%

2008 Population (Estimate) – 740,645 (8)
Per Capita Net Taxable Assessed Valuation – \$92,059.94
Per Capita Net Debt Outstanding – \$972.62

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- (1) Excludes the Refunded Obligations
(2) Represents bonds of utility districts annexed by the City
(3) Preliminary, subject to change
(4) Airport, Austin Energy, Communications and Technology Management, Convention Center, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Communications and Technology Management, Convention Center, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise. Communications and Technology Management, Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.

- (5) The City entered into an interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 30 days prior to each debt service payment date
- (6) Represents estimate of cash plus investments at cost on December 31, 2007
- (7) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement. If excluded, these obligations would lower net debt by \$_____
- (8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding (as of December 31, 2007) \$358,676,089 Combined Utility Systems Revenue Bonds payable from a prior lien on the combined net revenue of the Electric System and the Water and Wastewater System, \$827,520,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System, \$1,280,445,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and \$248,454,512 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding (as of December 31, 2007) \$344,640,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of December 31, 2007) \$239,935,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Bonds Subject to Annual Appropriation

The City has entered into a sublease (the "Sublease") with respect to space to house the Water and Wastewater Utility, and \$1,325,000 of Certificates of Participation are outstanding (as of December 31, 2007) and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Water and Wastewater System are not specifically pledged in such Subleases.

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Valuation and Funded Debt History

Fiscal Year Ended	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1996	541,889	\$23,303,015,047	\$43,003.30	\$443,247	\$ 817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.60%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	683,551	48,964,275,008	71,632.22	810,273	1,185.39	1.65%	98.90%
2005	695,881	49,702,906,522	71,424.43	784,396	1,127.20	1.58%	100.23%
2006	707,952	52,405,611,874	74,024.24	688,809	972.96	1.31%	100.67%
2007	724,117	60,230,045,084	83,177.23	741,298	1,023.73	1.23%	100.67%(3)
2008	740,645	66,554,200,000 (4)	89,859.78	778,883 (5)	1,051.63 (5)	1.17% (5)	N/A

- (1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget
(3) Estimated Collections as of June 30, 2007
(4) Certified Appraised Value, including \$4,623,806,542 in property in the appeals process
(5) Projected. Includes the Obligations

Tax Rate, Levy and Collection History

Fiscal Year Ended	Total Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1996	\$0.5446	\$0.3177	\$0.2269	\$126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	166,900,834	98.89%	99.57%
2000	0.5034	0.3222	0.1812	179,224,698	99.08%	99.85%
2001	0.4663	0.3011	0.1652	193,138,262	98.98%	99.60%
2002	0.4597	0.3041	0.1556	219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	233,342,114	98.84%	99.60%
2004	0.4928	0.3236	0.1692	241,295,947	99.06%	98.90%
2005 (2)	0.4430	0.2747	0.1683	220,183,876	99.03%	100.23%
2006	0.4430	0.2841	0.1589	232,156,861	99.48%	100.67%
2007	0.3986	0.2620	0.1366	240,076,960	99.48% (1)	100.67% (1)
2008 (3)	0.3986	0.2620	0.1366	240,076,960	(In process of collection)	

- (1) Estimated collections as of June 30, 2007
(2) The total tax rate decreased by 6.35¢ as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County wide hospital district, which resulted in public health services previously provided by the City to be provided by the hospital district (See "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes")
(3) Proposed Budget recommendation

Ten Largest Taxpayers (1)

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>January 1, 2007 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Freescall Semiconductor Inc (2)	Manufacturing	\$ 438,041,518	0.73%
Dell Computer Corporation	Manufacturing	363,424,049	0.60%
IBM Corporation	Manufacturing	261,627,563	0.43%
Southwestern Bell Telephone Company	Telephone Utility	202,135,590	0.34%
Spanion LLC (3)	Manufacturing	172,450,299	0.29%
Applied Materials Inc	Manufacturing	150,684,058	0.25%
Cousins Properties Texas LP	Real Estate	147,389,000	0.24%
Texas-Sixth Street LP	Real Estate	126,685,780	0.21%
River Place Pointe LP	Real Estate	109,472,921	0.18%
Simon Property Group	Commercial	<u>106,571,158</u>	<u>0.18%</u>
TOTAL		<u>\$ 2,078,481,936</u>	<u>3.45%</u>

(1) Taxable property valuations for the ten largest taxpayers from the July 2007 certified tax roll are lower than last year as a result of a reporting change in personal property from appraised last year to taxable this year. Last year's values for personal property include the Freepoint tax exemption. Five of the companies represent computer technology manufacturers.

(2) The Motorola Corporation is now Freescall Semiconductor Inc.

(3) The Advanced Micro Devices corporation is now Spanion LLC.

Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	<u>Fiscal Year Ended September 30</u>					
	<u>2003</u>	<u>2004</u>	<u>2005 (1)</u>	<u>2006</u>	<u>2007</u>	<u>2008 (2)</u>
General Fund	\$ 2969	\$ 3236	\$ 2747	\$ 2841	\$ 2620	\$ 2620
Interest and Sinking Fund	<u>1628</u>	<u>1692</u>	<u>1683</u>	<u>1589</u>	<u>1366</u>	<u>1366</u>
Total Tax Rate	\$ 4597	\$ 4928	\$ 4430	\$ 4430	\$ 3986	\$ 3986

(1) The City approved a tax rate of \$0.5065 which is the effective tax rate. The total tax rate was amended and reduced by 6.35¢ to the level shown as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County-wide hospital district, resulting in public health services previously provided by the City to be provided by the hospital district (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").

(2) Proposed Budget recommendation.

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year	Valuation Date	Real Property		Personal Property		Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
		Amount	% of Total	Amount	% of Total				
1995	1-1-94	\$17,350,805,301	82 79%	\$3,607,783,999	17 21%	\$20,958,589,300	\$117,892,065	99 00%	100 10%
1996	1-1-95	19,478,990,278	83 59%	3,824,024,769	16 41%	23,303,015,047	126,908,220	99 03%	99 91%
1997	1-1-96	21,488,717,069	83 21%	4,334,668,188	16 79%	25,823,385,257	135,598,596	98 96%	99 47%
1998	1-1-97	22,693,966,978	82 54%	4,799,091,757	17 46%	27,493,058,735	148,490,010	98 80%	99 37%
1999	1-1-98	27,225,077,724	83 88%	5,233,272,031	16 12%	32,458,349,755	166,900,834	98 89%	99 57%
2000	1-1-99	30,114,175,223	84 58%	5,488,665,103	15 42%	35,602,840,326	179,224,698	99 08%	99 85%
2001	1-1-00	35,257,000,679	85 23%	6,110,383,576	14 77%	41,419,314,286	193,138,262	98 98%	99 60%
2002	1-1-01	40,775,710,666	85 34%	7,007,162,430	14 66%	47,782,873,096	219,657,867	98 81%	99 23%
2003	1-1-02	44,261,013,540	87 20%	6,498,637,128	12 80%	50,759,650,668	233,342,114	98 84%	99 60%
2004	1-1-03	42,832,762,815	87 48%	6,131,512,193	12 52%	48,964,275,008	241,295,947	99 06%	98 90%
2005	1-1-04	43,662,323,952	87 85%	6,040,582,570	12 15%	49,702,906,522	220,183,876 (2)	99 03%	100 23%
2006	1-1-05	46,542,536,446	88 18%	5,863,075,428	11 19%	52,405,611,874	232,156,861	99 48%	100 67%
2007	1-1-06	53,473,676,409	88 78%	6,756,368,675	11 22%	60,230,045,084	240,076,960	99 48% (1)	100 67% (1)
2008	1-1-07	53,473,676,409	88 78%	6,756,368,675	11 22%	60,230,045,084	240,076,960	N/A	N/A

(1) Estimated collections through June 30, 2007

(2) The City approved a tax rate of \$0.5065 which is the effective tax rate. As a result of the voter approved new Hospital District the tax rate was amended and reduced by \$0.0635 to \$0.4430 (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes")

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Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. Within such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City Council is prohibited from adopting a tax rate that will result in any increase in total tax revenue from the preceding fiscal year until it has held a public hearing on the proposed increase following notice to the taxpayers.

Each year the City must calculate and publicize certain information concerning its proposed tax rate, including its "rollback tax rate." The rollback tax rate is the rate that will produce last year's maintenance and operation tax levy multiplied by 1.08 plus a rate that will produce the current year's debt service, with such rates being adjusted to take into account new exemptions and property additions to the tax roll. If the adopted rate exceeds the rollback tax rate, the qualified voters of the City may petition the City Council to call an election to determine whether to reduce the tax rate adopted for the City to the rollback tax rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

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Debt Service Requirements

DEBT INFORMATION (1)

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Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-06) (in 000's)

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded debt of these various taxing bodies.

<u>Taxing Jurisdiction</u>	<u>Total Funded Debt</u>	<u>Estimated % Applicable (2)</u>	<u>Overlapping Funded Debt</u>
City of Austin	\$847,735 (1)	100.00%	\$ 847,735
Austin Independent School District	521,727	78.95%	411,903
Travis County	466,020	71.00%	330,874
Round Rock Independent School District	322,810	5.84%	18,852
Leander Independent School District	617,308	1.54%	9,507
Pflugerville Independent School District	255,760	4.38%	11,202
Eanes Independent School District	147,715	3.95%	5,835
Williamson County	523,620	4.07%	21,311
Del Valle Independent School District	101,595	2.73%	2,774
Manor Independent School District	75,600	1.75%	1,323
Austin Community College	97,910	81.70%	79,992
North Austin Municipal Utility District No. 1	6,742	100.00%	6,742
Northwest Austin Municipal Utility District No. 1	14,083	100.00%	14,083
Northwest Travis County Road District No. 3	4,230	100.00%	<u>4,230</u>
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			<u>\$1,766,363</u>
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (3)			3.37%
Per Capita Overlapping Funded Debt (4)			\$2,473.08

(1) Excludes general obligation debt reported in proprietary funds

(2) Source: Taxing jurisdiction

(3) Based on assessed valuation of \$52,349,642,297

(4) Based on 2006 estimated population of 714,237

On May 15, 2004, voters of Travis County (in which the City is located) approved the creation of a countywide hospital district, and authorized the hospital district to levy an ad valorem tax at a rate not to exceed 25 cents per \$100 assessed valuation. It is anticipated that the hospital district will assume and fund health care facilities and services currently provided by the City, and funded from ad valorem taxes assessed to residents of the City and Travis County. The City reduced the ad valorem tax rate levied and assessed against property owners of the City as a result of the creation of the countywide hospital district. See "TAX INFORMATION – Tax Rate, Levy and Collection History." The Hospital District approved the levy for its 2004-2005 fiscal year of an ad valorem tax rate of \$0.0779.

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Authorized General Obligation Bonds

<u>Purpose</u>	<u>Date</u>	<u>Amount</u>	<u>Amount</u> <u>Previously</u>	<u>Unissued</u>
	<u>Authorized</u>	<u>Authorized</u>	<u>Issued</u>	<u>Balance</u>
Brackenridge 2000	10-22-83	\$ 50,000,000	\$40,785,000	\$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	5,395,000
Communications Facilities Equipment (1)	05-03-97	38,000,000	38,000,000	0
Street Improvements	11-07-00	150,000,000	105,000,000	45,000,000
Transportation (Prop 1)	11-07-06	103,100,000	10,000,000	93,100,000
Damage Improvements (Prop 2)	11-07-06	145,000,000	37,000,000	108,000,000
Park Improvements (Prop 3)	11-07-06	84,700,000	8,675,000	76,025,000
Cultural Arts (Prop 4)	11-07-06	31,500,000	0	31,500,000
Affordable Housing (Prop 5)	11-07-06	55,000,000	5,000,000	50,000,000
Central Library (Prop 6)	11-07-06	90,000,000	0	90,000,000
Public Safety Facility (Prop 7)	11-07-06	<u>58,100,000</u>	<u>21,850,000</u>	<u>36,250,000</u>
TOTAL		<u>\$835,660,000</u>	<u>\$290,848,000</u>	<u>\$544,812,000</u>

- (1) The City issued \$24,420,000 of this total in Contractual Obligations and therefore applied the amount toward the authorized general obligation bonds total

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2005. The City will continue to review opportunities for refunding certain previously issued general obligation bonds and assumed debt.

Funded Debt Limitation

No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which adopts the constitutional provisions and also contains a limitation that the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

FISCAL MANAGEMENT

The Capital Improvements Program Plan and Capital Budget

The Capital Improvement Plan is a five-year list of capital improvements and a corresponding spending plan for financing these improvements. It is developed through public input and department prioritization of needs. The process includes neighborhood meetings, department requests, Budget Office assessment of requested projects, input from the Planning Commission's CIP Subcommittee and other Boards and Commissions, and citizen input from public hearings. Each year, the Planning Commission reviews the Capital Improvement Plan and submits a recommendation to the City Manager detailing specific projects to be included in the Capital Budget for the next fiscal year.

The City Manager considers the Planning Commission's recommended Plan to propose a Capital Budget to the City Council. The Capital Budget contains requested appropriations for new projects, additional appropriations for previously approved projects and any requests to revise prior year appropriations. Unlike the Operating Budget, which authorizes expenditures for only one fiscal year, Capital Budget appropriations are multi-year, lasting until the project is complete or until changed by the City Council.

The City Council reviews the Capital Budget, holds public hearings to gather final citizen input and establishes the amount of revenue and general obligation bonds to sell to fund capital improvements.

2007-2008 Capital Budget

The 2007-2008 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates city-wide capital spending in 2007-2008 of \$663.2 million in enterprise funds and \$180.8 million in general government funds.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2007-08 Capital Budget. Total new proposed appropriation for General Government CIP Funds is \$160.6 million and total new proposed appropriation for Enterprise CIP Funds is \$717.6 million. Appropriation by department is listed below.

Summary of 2007-2008 Proposed Capital Budget (millions)	
Austin Energy	\$340.6
Aviation	25.2
Austin Water Utility	283.4
Convention Center	4.9
Solid Waste Services	45.4
Watershed Protection	<u>18.1</u>
Enterprise Appropriations	\$717.6
Communications & Technology Management	\$9.8
Emergency Medical Services	8
Financial & Administrative Services	21.6
Fire	6.1
Health & Human Services	3.2
Fleet	1.0
Library	1.2
Neighborhood Housing & Community Development	10.2
Neighborhood Planning & Zoning	8
Parks & Recreation	30.8
Police	2.0
Public Works	44.0
Watershed Protection	<u>29.1</u>
General Government Appropriations	\$160.6
TOTAL PROPOSED NEW APPROPRIATIONS	<u>\$878.2</u>

Operating Budget

The City's Home Rule Charter and Texas law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for reappropriation. The budget process in the City normally commences with all department heads submitting to the Chief Financial Officer of the City a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Chief Financial Officer of the City, in turn, forwards these estimates to the City Manager who submits them to the Mayor and City Council for their consideration and approval.

In June 1989, the City Council approved Financial Management Policies, which were last amended for the 2005-2006 proposed budget. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least \$40,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than \$2,000,000, and a General Fund Reserve for Budget Stabilization shall be budgeted annually. At the end of each fiscal year, any excess revenue received in that year and any unspent appropriations at the end of that year will be deposited into General Fund Reserve for Budget Stabilization. The Budget

Stabilization Reserve will then be available for appropriation for one-time expenditures such as capital equipment but no more than one-third of the reserve will normally be appropriated in any one year

2007–2008 Budget (Amounts are in thousands)

The 2007-2008 operating budget was presented on July 26, 2007, and was prepared in accordance with guidelines provided by the City Council. The proposed budget includes a tax rate of \$0.4034 per \$100 assessed valuation. The following is a summary of the proposed 2007-2008 General Fund Budget:

Beginning Balance, October 1, 2007 (Budget Basis) (000's omitted)		\$ 0
<u>Summary of Budgeted General Fund Resources</u>		
Revenue		
General Property Taxes	\$186,180	
City Sales Tax	164,723	
Other Taxes	5,247	
Gross Receipts/Franchise Fees	32,189	
Miscellaneous	<u>83,194</u>	
Total Revenue		\$471,533
Transfers In		
Electric Light and Power System	\$ 91,000	
Water and Wastewater System	25,480	
Other Transfers	<u>5,000</u>	
Total Transfers In		<u>\$121,480</u>
Total General Fund Resources		<u>\$593,013</u>
<u>Summary of Budgeted General Fund Requirements</u>		
Departmental Appropriations		
Administrative Services	\$ 11,572	
Urban Growth Management	21,074	
Public Safety	385,520	
Public Works	325	
Public Health and Human Services	35,809	
Public Recreation and Culture	<u>59,328</u>	
Total Departmental Appropriations		\$513,628
Transfers Out		
Support Services Fund	\$ 25,162	
Other Funds	<u>42,598</u>	
Total Transfers Out		\$ 67,760
Other Requirements		<u>\$ 11,604</u>
Total General Fund Requirements		<u>\$592,992</u>
Use of Beginning Balance		\$ 0
Ending Balance		<u>\$ 0</u>
One-Time Retirement Increase – 1%		\$ 1,121
One-Time Critical Equipment		\$ 16,644
Transfer to/from Budget Stabilization Reserve		\$(17,744)
Adjusted Ending Balance		<u>\$ 0</u>
<u>Budgeted Reserve Requirements</u>		
Emergency Reserve	\$ 40,000	
Contingency Reserve	5,737	
Budget Stabilization Reserve Fund	<u>24,728</u>	
Total Budgeted Reserve Requirements		<u>\$70,465</u>

Deficit Budgeting

The City is barred by Texas law and the City's Charter from deficit budgeting.

Accounting System

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

Article VII, Section 15 of the City's Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included herein.

Short-Term Borrowing

Pursuant to Section 1431, V.T.C.A. Government Code, the City has the authority to conduct short-term borrowings to provide for the payment of current expenses, through the issuance of anticipation notes. Such notes must mature before the first anniversary of the date the Attorney General approves the anticipation notes.

GASB Statement No. 34

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" ("GASB 34"). The objective of GASB 34 is to enhance the clarity and usefulness of the general purpose external financial reports of state and local governments to its citizenry, legislative and oversight bodies, and investors and creditors. The City adopted GASB 34 as of October 1, 2001. While the adoption of GASB 34 altered the presentation of the City's financial information, City staff does not believe that adoption of GASB 34 will have any material adverse impact on the City's financial position, results of operation or cash flows. See APPENDIX B – Excerpts from the Annual Financial Report.

INVESTMENTS

The City invests its available funds in investments authorized by Texas Law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, the "PFIA") that are issued by or through an institution that either has its main office or a branch in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two

nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Political subdivisions such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool, (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less.

Effective September 1, 2005, the City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a "decommissioning trust" (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (commonly referred to as the "Texas Trust Code"). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. See "CUSTOMER RATES – Energy Risk Management".

The City may also contract with an investment management firm registered under the Investment Advisor Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the City retains ultimate responsibility as fiduciary of its assets.

The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal, (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest, (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity, that address investment diversification, yield and maturity, and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2)

preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield

Under State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly, the investment officers of the City shall submit an investment report detailing (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer.

Additional Provisions

Under Texas law, the City is additionally required to (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council, (3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy, and (5) provide specific investment training for the Chief Financial Officer, Treasurer and Investment Officers.

Current Investments

As of December 31, 2007, the City’s investable funds were invested in the following categories:

<u>Type of Investment</u>	<u>Percentage</u>
U S Treasuries	10.95%
U S Agencies	57.39%
Money Market Funds	1.24%
Local Government Investment Pools	30.42%

The dollar weighted average maturity for the combined City investment portfolios is 511 days. The City prices the portfolios weekly utilizing a market pricing service.

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GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
(in 000's)

	Fiscal Year Ended September 30				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Revenues</u>					
Taxes (1)	\$262,190	\$264,511	\$277,774	\$264,786	\$294,344
Franchise Fees	29,589	28,962	32,964	28,973	30,677
Fines, Forfeitures and Penalties	17,704	16,966	16,976	17,529	18,832
Licenses, Permits and Inspections	14,670	14,737	15,317	17,399	22,131
Charges for Services	15,579	15,403	15,565	23,064	24,453
Interest and Other	<u>6,028</u>	<u>19,815</u>	<u>19,168</u>	<u>10,691</u>	<u>15,882</u>
Total Revenues	\$345,760	\$360,394	\$377,764	\$362,442	\$406,319
<u>Expenditures</u>					
Administration	\$ 9,282	\$ 8,909	\$ 8,199	\$ 8,699	\$ 9,018
Urban Growth Management	10,882	11,638	10,246	15,205	16,701
Public Safety	237,590	254,684	262,086	296,335	323,006
Public Services and Utilities	9,191	9,380	8,669	473	262
Public Health	43,655	46,061	15,728	26,715	29,824
Public Recreation and Culture	46,696	45,193	43,255	45,145	47,599
Social Services Management	10,448	9,985	9,579	0	0
Nondepartmental Expenditures	<u>62,493</u>	<u>47,029</u>	<u>46,983</u>	<u>52,044</u>	<u>54,494</u>
Total Expenditures	\$430,237	\$432,879	\$404,745	\$444,616	\$480,904
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (84,477)	\$ (72,485)	\$ (26,981)	\$ (82,174)	\$ (74,585)
<u>Other Financing Sources (Uses)</u>					
Capital Leases	\$ 0	\$ 785	\$ 634	\$ 932	\$ 0
Transfers from Other Funds	137,084	92,417	95,894	94,451	97,658
Transfers to Other Funds	<u>(9,424)</u>	<u>(21,129)</u>	<u>(48,766)</u>	<u>(14,154)</u>	<u>(16,611)</u>
Net Other Financing Sources	\$127,660	\$ 72,073	\$ 47,762	\$ 81,229	\$ 81,047
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	\$ 43,183	\$ (412)	\$ 20,781	\$ (945)	\$ 6,462
Residual Equity Transfer In (Out)	0	0	0	0	0
Special Item – Hospital District Reserve	0	0	(7,700)	0	0
Fund Balances at Beginning of Year	<u>50,435 (2)</u>	<u>93,618</u>	<u>93,206</u>	<u>106,287</u>	<u>105,342</u>
Fund Balances at End of Year	<u>\$ 93,618</u>	<u>\$ 93,206</u>	<u>\$106,287</u>	<u>\$105,342</u>	<u>\$111,804</u>

(1) Consists of property, sales and mixed drinks tax

(2) Beginning fund balance adjusted for implementation of new accounting principle

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CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>Per Capita</u> <u>Sales and Use Tax</u>	<u>(in 000's)</u> <u>Sales and Use Tax</u>	<u>% of</u> <u>Ad Valorem Tax Levy</u>
1998	\$160.44	\$ 97,581	65.72%
1999	172.59	106,839	64.01%
2000	194.31	122,157	68.16%
2001	186.23	123,218	63.80%
2002	172.03	115,441	52.55%
2003	163.70	110,454	47.34%
2004	173.44	117,725	48.79%
2005	177.64	123,617	56.14%
2006	196.14	138,860	59.81%
2007 (1)	209.10	150,663	62.76%
2008 (2)	209.10	150,663	62.76%

(1) Estimate

(2) Estimate used in FY 2008 Proposed Budget

Transfers From Utility Funds

The City owns and operates a Waterworks and Wastewater System and an Electric Light and Power System, the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers:

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>(in 000's)</u> <u>Transfers</u>	<u>% of General</u> <u>Fund Requirements</u>
1998	72,721	23.4%
1999	74,204	21.7%
2000	78,352	21.5%
2001	85,824	21.7%
2002	88,924	21.7%
2003	92,417	20.3%
2004	95,894	21.1%
2005	94,116	20.9%
2006	97,658	20.3%
2007 (1)	106,470	20.3%
2008 (2)	106,470	20.3%

(1) Estimate

(2) Estimate used in FY 2008 Proposed Budget

ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages B-28 and B-29 of APPENDIX B, attached hereto, is a condensed summary of the revenues, expenses, transfers and retained earnings of the City's enterprise funds for the year ended September 30, 2006.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The Electric Utility System had approximately 1,566 full-time regular employees as of September 30, 2007. The Water and Wastewater System had approximately 1,033 full-time regular employees as of the same date.

RESPONSE TO COMPETITION

Austin Climate Protection Plan

On February 7, 2007, Austin Mayor Will Wynn presented an aggressive plan to address global warming from a City perspective. The Austin Climate Protection Plan is intended to eliminate carbon dioxide emissions from virtually all municipal activities by the year 2020. This includes powering all City facilities with 100% renewable energy by 2012, converting the entire city fleet of vehicles to alternative fuels and electric power by 2020, and implementing greenhouse gas reduction plans in every City department. The Plan calls for Austin Energy to aggressively ramp up its clean energy programs, achieving 700 megawatts of new conservation and efficiency savings and having 30 percent of its energy needs come from renewable resources by 2020. It also calls for making all new single-family homes zero net-energy capable by 2015 and increasing efficiency in all new commercial buildings by 75 percent in the same period. This plan was adopted by City Council on February 15, 2007. In response Austin Energy's Strategic Plan will be revised to reflect these new goals.

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success.

First, an overarching Risk Management Strategy guides Austin Energy to carefully manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows for more information to become known before major commitments are made.

Second, a strategy to provide Excellent Customer Service positions Austin Energy to compete in the rapidly changing energy industry. Under this strategy Austin Energy intends to build employee and customer satisfaction so that it is positioned for competition or regulation in the future.

Third, an Energy Resource strategy directs Austin Energy to first seek cost-effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy intends not to prematurely commit to unproven technologies, however, Austin Energy intends to pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategies including:

- Maintain Financial Integrity - Austin Energy's goal is to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial

support for local government

- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy's goal is to exceed the City's M/WBE goals by 2008.
- Customer Satisfaction - Austin Energy will develop a better understanding of its customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010.

Additionally, Austin Energy understands the link between customer satisfaction and employee satisfaction, and includes an Employee Satisfaction goal in this strategy. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. Austin Energy targets an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010.

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets, power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages.
 - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
 - SAIDI (system average interruption duration index) = 60 minutes per year
- Renewable Portfolio Standard - Austin Energy intends to continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will own or have contracts for a Renewable Portfolio equal to 20% of its sales, as well as 15% increase in demand side management impacts. Austin Energy will demonstrate its commitment to solar energy by implementing a Solar Rebate Program and conducting a study to determine the comprehensive value of solar energy.

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The Strategic Plan is reviewed and updated annually. The following table outlines the results over the last 4 years

STRATEGIC PLANNING PERFORMANCE MEASURES 2003-2006

STRATEGY	OBJECTIVE	TARGET	2002-2003 “A”		2003-2004 “A+”		2004-2005 “A+”		2005-2006 “AA-”	
Risk Management	Maintain Financial Integrity	“AA” (S&P) credit rating by 2010								
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)
		Construction	12.90	12.60	30.50	34.64	6.86	9.62	1.07	5.48
		Commodity	3.50	6.20	0.49	7.71	2.55	5.00	0.87	6.20
		Non-Professional	14.10	15.00	17.21	4.22	7.83	3.07	4.24	3.37
		Professional	16.50	14.20	0.00	0.16	0.00	0.04	0.08	0.00
Customer Satisfaction	Employee Satisfaction target of 10% improvement on LTW Survey by 2010, 1 e 70% positive rating overall			64%		57%		55.25%		58%
		Customer Satisfaction target of 83/100 by 2010		76/100		79/100		79/100		80/100
Exceptional System Reliability	SAIDI @ 60 minutes by 2005 SAIFI of 0.8 interruptions/yr by 2005 SATLPI of 4.1 average/yr by 2005			64.93		62.72		79.06		86.10
				0.85		0.88		1.05		0.99
				N/A		4.50		4.10		4.20
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	20% renewable energy by 2020		2.94%		2.16%		3.80%		6.00%
		15% energy efficiency by 2020		5.50%		6.00%		6.70%		7.30%
		100MW solar generation by 2020		0.24 MW		0.33 MW		0.85 MW		1.0 MW

Financial Policies

With increasing competition in the electric utility industry due to regulatory and market changes, Austin Energy continues to maintain strong financial policies aimed at keeping financial integrity while allowing for flexibility should the market change. Some of the more significant financial policies adopted by City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.
- A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
 - An Emergency Reserve with a minimum of 60 days of operating cash.
 - Up to a maximum of 60 days additional operating cash set aside as a Contingency Reserve.
 - Any additional funds over the maximum 120 days of operating cash may be set aside in a Competitive Reserve.
- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years. The Competitive Reserve may be used to improve the strategic position of Austin Energy including, but not limited to, funding capital needs in lieu of debt issuance, reduction of outstanding debt, rate reductions, acquisitions of new products and services, and new technologies. Funding may be provided from net revenue available after meeting the General Fund Transfer (described below), capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.
- The General Fund Transfer shall not exceed 12% of Austin Energy’s three-year average revenues, calculated using the current year estimate and the previous two years’ actual revenues from the City’s Comprehensive Annual Financial Report. (Actual percentage has been 9.1% for the last 8 years, with the exception of 2002 at 8.9%.)
- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. See “INVESTMENTS – Legal Investments.”
- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.

A complete listing of Austin Energy’s financial policies can be found at <http://www.ci.austin.tx.us/budget/07-08/downloads/pb0708support.pdf>

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City’s rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the PURA by the filing of a petition with the PUCT containing the

requisite number of valid signatures from residential ratepayers who take service outside the City limits. Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction.

Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, prejudicial, discriminatory, predatory, or anti-competitive.

An Independent System Operator ("ISO") was established for ERCOT as a part of the rules that were adopted by the PUCT to open access to the wholesale electric market in Texas and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7, adopted by the Texas legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB 7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system, (2) ensure the reliability and adequacy of the ERCOT network, (3) ensure timely and accurate customer switching, and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff are very active participants in the ERCOT stakeholder process.

SB 7 amended PURA to provide for retail deregulation of the electric utility industry in Texas. SB 7 opened retail competition for Investor Owned Utilities ("IOUs") beginning January 1, 2002. SB 7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable.

General Market Framework Beginning on January 1, 2002, IOUs were required to unbundle their regulated (wires) operations from their competitive operations. There is a strong ISO established with responsibility over the operations and planning for the ERCOT bulk electric system. The PUCT has established clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation and wholesale market participants must follow a detailed code of conduct. Starting on January 1, 2002, a "Price-to-Beat" for the incumbent IOU rates includes a 6% reduction through 2007 or until 40% of IOU residential and small commercial customers choose a new supplier. IOUs may adjust the Price to Beat twice annually to account for increases in the cost of natural gas.

MOUs That Do Not Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.
- Continued MOU access to buy and sell power in the wholesale market.

MOUs Choosing Retail Competition On or After January 1, 2002

(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)

- Retail competitors can sell "generation" to MOU customers. MOU provides "wires" access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an "obligation to connect" and provides wire services and local reliability. Wires are not subject to competition.
- MOU can sell at retail outside its service area, per prevailing market rules.

MOU Local Control Preserved

- Exclusive MOU jurisdiction to set local distribution and other rates. Local wires services and rates remain in exclusive jurisdiction of the MOU.
- Local determination of the stranded investment amount and recovery mechanism.
- MOUs are not required to unbundle (structurally separate functions).
- Local authorities determine and provide customer services and protections.
- Local control of MOU power resource acquisition.
- Customers in multi-certified areas cannot switch wires companies to avoid stranded investment charges.
- Securitization is available to MOUs.
- MOU retains metering.

Participation By MOU In Markets Outside Its Area After Choosing Retail Competition

- Limited PUCT jurisdiction over terms and conditions for access, not rates
- Subject to market power limits and PUCT customer safeguard code of conduct

Other Key MOU Provisions

- Existing contracts are preserved Tax-exempt status is preserved MOU “competitiveness provisions” were included in SB 7 to “level” the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions No mandated MOU rate reductions
- The City has not yet made a decision whether to “opt in” for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to “opt in” or not, or resulting from the deregulation process in general

State Wholesale Market Design Developments

In the summer of 2002, the PUCT initiated an investigation to convert the wholesale market in the ERCOT region from a zonal-based market design to a nodal market design. On September 22, 2003, the PUCT adopted a rule requiring that ERCOT use a stakeholder process to develop a nodal market design. The PUCT’s purpose in ordering the change is to promote economic efficiency in the production and consumption of electricity, support wholesale and retail competition, support the reliability of electric service, and reflect the physical realities of the ERCOT electric system. The key components of the nodal market as ordered by the PUCT include continued reliance on bilateral markets for energy and ancillary services, establishment of a day-ahead energy market, resource-specific bid curves for energy and ancillary services, congestion pricing incorporating direct assignment of all congestion rents to resources causing the congestion, tradable congestion revenue rights (“CRRs”) made available through auctions, nodal energy prices for resources, energy trading hubs, and zonal energy prices for load settlement.

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that will allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation prior to September 1, 1999, Austin Energy will receive preassigned CRRs at a discount to the market price which are available prior to the auction of CRRs. The service territory of Austin Energy will be identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market will begin operation on January 1, 2009. In anticipation of the opening of the nodal market, Austin Energy employees are active participants in ERCOT’s Transition Plan Task Force (TPTF), the joint ERCOT-stakeholder effort to assure ERCOT-wide readiness with the market change. Austin Energy’s Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff are actively taking steps to modify key systems and processes to assure Austin Energy’s capability to participate fully in the ERCOT nodal market on schedule.

Federal Rate Regulation

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the “Final Rule”) proposing significant changes regarding transmission service performed by electric utilities subject to the FERC’s jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Final Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner’s control of its transmission system.

On December 20, 1999, the FERC issued “Order No. 2000” (the “Order”) related to the formation of voluntary Regional Transmission Organizations (“RTOs”). The Order required all utilities subject to the FERC’s authority under section 205 (Rates and Charges, Schedules, Suspension of New Rates) and 206 (Fixing Rates and Charges, Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO’s control, and authority over short-term system reliability. The essential functions of an RTO are tariff administration, congestion management, parallel path flow, administering ancillary services, operating Open

Access Scheduling Information System ("OASIS"), market monitoring, planning and expansion, and interregional coordination

Austin Energy is not subject to the FERC's jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in the Order and which predates the Order by several years. Since 1995, the PURA has required open access to the transmission network in ERCOT under comparable terms and conditions for all users of the transmission network. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in the Order. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements rules have been developed by the FERC. On July 20, 2006, the FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization ("ERO"), which will be responsible for developing and enforcing mandatory electric reliability standards under the FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and ERCOT, which will govern the responsibilities of ERCOT as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of 83 NERC reliability standards that apply to entities operating in the ERCOT region. An additional eight Critical Infrastructure Project standards as well as other reliability standards approved by NERC are awaiting formal approval from the FERC. Austin Energy has established compliance programs in its Energy Markets, transmission systems planning, operations and reliability, and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures.

Environmental Regulation General

Austin Energy's Environmental Policy commits that Austin Energy shall maintain its status as a leader in environmental stewardship and continually improve its environmental performance. Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has processes in place for assuring compliance with applicable environmental regulations. Austin Energy's Environmental Care and Protection section consists of a staff of educated and trained environmental compliance professionals who are responsible for establishing and maintaining compliance programs throughout the utility. The Environmental Care and Protection section interprets existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. The Environmental Care and Protection section staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. Environmental Services is also responsible for conducting environmental training for the organization.

Environmental Regulation Related to Air Emissions

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the Texas Commission on Environmental Quality ("TCEQ") and the United States Environmental Protection Agency ("USEPA").

In 1999, as part of SB 7, defined above, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clean Air Act in 1971. The SB 7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. If the total NOx emissions from these plants exceed the total system allocation, Austin Energy must purchase the additional allowances needed to cover its emissions. The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx

reductions. Since the NOx emission rate from the Decker Unit 2 is considered very low compared to similar units, this unit was voluntarily included in this same permitting program. By making this voluntary move, Austin Energy significantly reduced the costs of complying with this program. A total of 1,741 tons of NOx were allocated to the “grandfathered” units and Decker Unit 2.

In addition to the NOx reductions made to comply with SB 7, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly Street, now closed, and the new units at the Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy’s total NOx emissions were 1,232 tons for the latest compliance reporting year ending May 2005. This total was approximately 1,000 tons for the compliance year ending in May 2006.

The TCEQ has also implemented further NOx reduction rules under 30 TAC 117. The TCEQ now requires that coal-fired units that were placed into service prior to December 31, 1995 and located in the east side of Texas (east of I-35) have a yearly average NOx emission rate of 0.165 lb/mmBtu or less. This rule also requires that gas-fired boilers and gas turbines in this same geographic region that were placed into service prior to December 31, 1995 (i.e., all of Austin Energy’s currently operational Decker and Holly Street units) have a yearly average NOx emission rate of 0.14 lb/mmBtu or less. Modifications made to the Decker and Holly Street units resulted in an average emission rate of 0.096 lb/mmBtu for 2005. Modifications have been made to the Fayette Power Project Units 1 & 2 (which Austin Energy co-owns with the LCRA) and current emission rates are averaging approximately 0.10 lb/mmBtu. All of the Holly Street and Decker units will be in compliance with their emission limits. The Decker gas turbine units fall under an exemption from this rule due to their limited run times.

Austin Energy and the co-owner, LCRA are now in the process of installing scrubbers for Fayette Power Project Units 1 & 2. These scrubbers will reduce the emissions of SO2 from these units by at least 95%. These scrubbers should also reduce the emissions of mercury from these units as well.

Austin Energy has joined the California Climate Action Registry which requires Austin Energy to measure green house gases from its point and non-point sources. The emissions will be reported each year and will be certified by a third party auditor.

Environmental Regulation Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System (“NPDES”). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas as the Texas Pollution Discharge Elimination System (“TPDES”). Austin Energy’s larger power generation facilities, Decker, Holly Street and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges. USEPA has also finalized regulations for cooling water intake structures on existing facilities. These regulations will affect Decker and Sand Hill Energy Center. Austin Energy will conduct studies over the next several years to determine the most cost effective methods for compliance with these new regulations.

Austin Energy maintains plans for preventing and responding to spills of oil and hazardous materials at its power plants and substations as required by the Clean Water Act Spill Prevention Control and Countermeasure and Facility Response Plan requirements. Austin Energy’s spill response team responds to spills in less than one hour from the time the spills are reported.

Environmental Other

Since 2001, Austin Energy has funded a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls (“PCBs”) from its service area beyond what is ordinarily removed due to equipment failures or line improvements. Austin Energy crews inspect and test overhead transformers and remove equipment at risk for having PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities. Austin Energy has completed the decommissioning and remediation of the Seaholm Power Plant (“Seaholm”), and has been recognized by USEPA that Seaholm will be the first facility in the nation to receive a certificate of Ready for Reuse under the Toxic

Substance Control Act related to PCBs. This certification is given to contaminated industrial facilities that have been cleaned and made available for public use. Additionally, Austin Energy has been selected by the TCEQ to receive its annual Environmental Excellence Award for Innovative Technology in the methods employed for the remediation activities performed during the decommissioning.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. Non-compliance with environmental standards or deadlines could result in reduced operating levels. Further compliance with environmental standards or deadlines could increase capital and operating costs.

Nuclear Regulation

Nuclear generation facilities are subject to regulation by the Nuclear Regulatory Commission ("NRC") and are required to obtain liability insurance and a United States Government indemnity agreement in order for the NRC to issue operating licenses. This primary insurance and the retrospective assessment discussed below are to insure against the maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors. The Price-Anderson Act originally expired on August 1, 2002, but was renewed on August 8, 2005 as part of the National Energy Legislation. The new Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$10.76 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$100.59 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$15 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of \$300 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of \$1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses. The \$2.75 billion of nuclear property insurance consists of \$500 million in primary property damage insurance and \$2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL.") In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$26.8 million during any one-policy year.

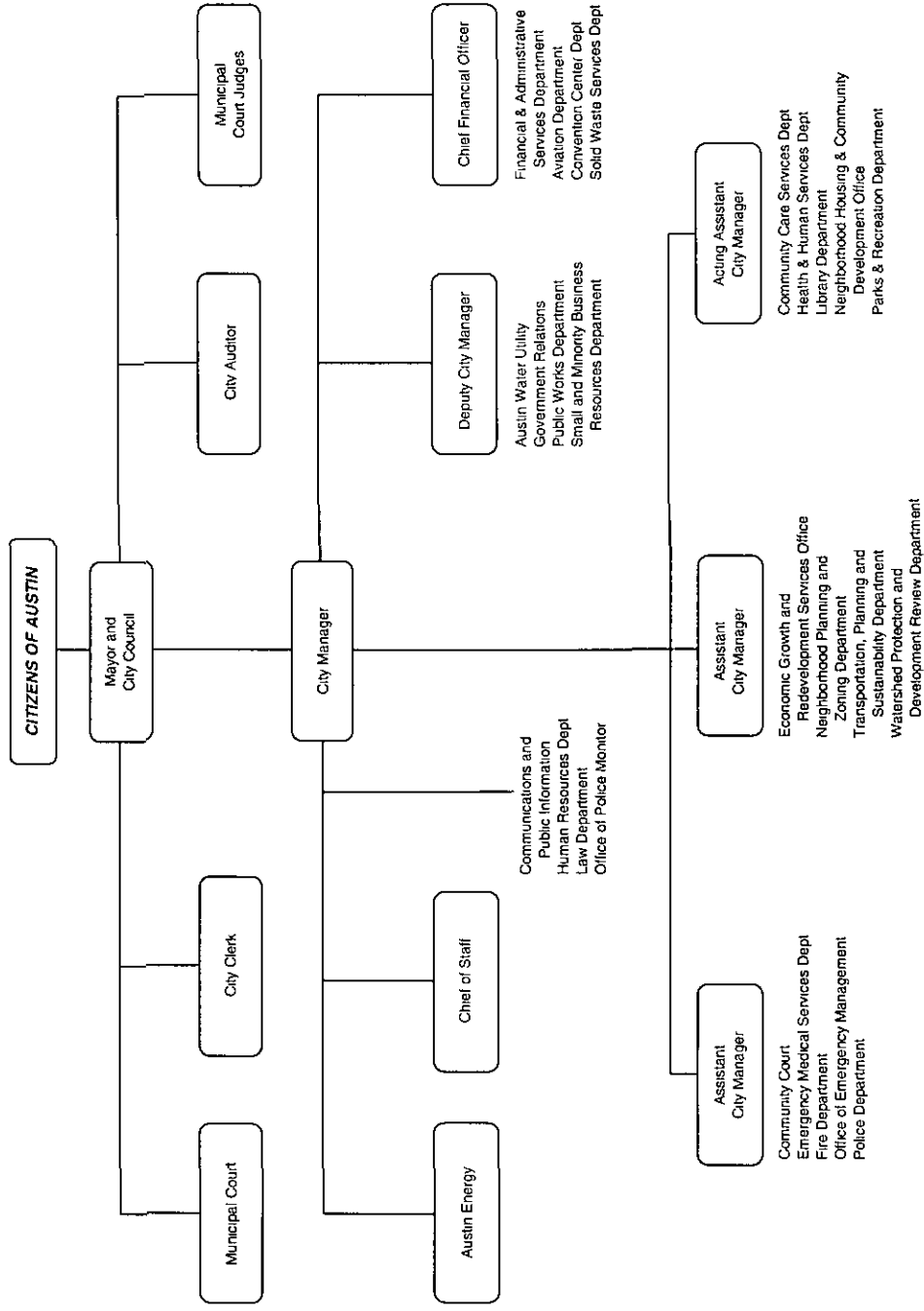
Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each Holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC which was based on the minimum amount for decommissioning as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan

Chase Bank, N.A. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at December 31, 2006 was \$119 million. For Fiscal Year 2007, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In current dollars (at August 31, 2006), the minimum amount for decommissioning is \$342.4 million per unit. See "INVESTMENTS – Legal Investments".

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CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. The City Council is comprised of a Mayor and six council members elected at-large for three year staggered terms.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Toby Hammett Futrell was appointed City Manager on May 1, 2002.

City Manager – Toby Hammett Futrell [Disclosure Needed?]

Ms. Futrell received her Masters of Business Administration from Southwest Texas State University and a Bachelor of Liberal Studies from St. Edward's University. Her career with the City of Austin organization spans more than 25 years and started with an entry-level position in the Health and Human Services Department. In 1996, Ms. Futrell was appointed Assistant City Manager and assumed the position of Deputy City Manager in February 2000, prior to becoming City Manager. Ms. Futrell has announced her intention to retire and leave the position of City Manager in May 2008. The City has hired Arcus, a company in Harrisburg, Pennsylvania, to assist with a nationwide search for a new City Manager. Arcus met with City Council members and stakeholders from the community to develop a city manager profile and it is anticipated that a list of candidates will be compiled by late November/early December. A hiring decision is anticipated early next year to allow the new City Manager to participate in the 2009 budget.

Chief Financial Officer – Leslie Browder, CPA

Ms. Leslie Browder received her B.B.A. in Accounting from The University of Texas at Austin. Her career with the City spans more than 15 years. Ms. Browder assumed the position of Chief Financial Officer in September 2007. Prior to her appointment as Chief Financial Officer, she served as the City's Deputy Chief Financial Officer. During her tenure at the City of Austin, she has also served in other financial capacities, including the Chief Financial Officer for the airport. Ms. Browder has also been employed in Chief Financial Officer roles for Austin's public transportation authority, San Diego County's public pension system and the City of Encinitas, California.

Services Provided by the City

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises including an electric utility system, water and wastewater utility system, an airport and two public event facilities.

Employees

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have not approved collective bargaining for either firemen or policemen. Approximately 15% of the City's employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

The City does not have automatic escalators in payroll or in its retirement systems. The retirement systems may grant cost-of-living increases up to 6% for the municipal employees and 6% for police officers and a percentage based on the amount of increase in the Consumer Price Index for the firemen only if recommended by the independent actuary and approved by the retirement boards.

Annexation Program

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of territory by the City. Prior to annexing territory, the City must develop a service plan describing the municipal services -

police and fire protection, sanitation, provision and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks - to be provided to the annexed area. Generally, those services may not be at a lower level of service than provided in other areas of the City with similar characteristics. The City is not obligated to provide a uniform level of service to all areas of the city where differing characteristics of population, topography, and land use provide a sufficient basis for different service levels.

Under current Texas law, there are basically two processes for the annexation of territory into a city. The three-year Municipal Annexation Plan ("MAP") process applies generally to populated annexation areas, i.e. those that include 100 or more properties with a house on each lot. Unpopulated areas, areas that are annexed by consent, and areas that meet certain other criteria follow the "exempt area process". The processes involve staff review, development of a service plan (or regulatory plan for a limited purpose annexation), property owner notification, publication of a newspaper notice, two public hearings, and ordinance approval. The MAP process also includes an inventory of existing services and a period in which, for this particular annexation, residents appointed by the County Commissioners negotiate with city staff on the service plan.

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services - police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks - must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for a petition and court action for compliance with the service plan or for disannexation of the area, and may also result in a refund of taxes and fees collected for services not provided. Depending on the type of petition, a court may order the City to comply with the service plan or to disannex the area. The City may not reannex for ten years any area that was disannexed for failure to provide services.

Some of the areas which may be considered for annexation will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes. Existing utility districts, as well as new districts that may be created from time to time, may issue bonds for their own improvements. Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from any net revenues derived from the operation of its water and sanitary sewer systems. Texas law generally requires that if a city is annexing a district, the district must be annexed in its entirety. Upon annexation by a city, a district is dissolved and the city assumes the district's outstanding bonds and other obligations and levies and collects ad valorem taxes on taxable property within the corporate limits of the city ad valorem taxes sufficient to pay the principal of and interest on such assumed bonds.

The City also assumes liabilities when it annexes land in an Emergency Services District ("ESD") and that territory is disannexed from the ESD. This liability, however, is limited to assumption of a pro-rata share of debt and assumption of those facilities directly used to provide service to the area.

The City Charter and the State's annexation laws provide the City with the ability to undertake two types of annexation. "Full purpose" annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances achieving these purposes - chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes, municipal services are not provided, and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. Since 1999 the City has annexed over 10,200 acres of territory for limited purposes. Strategic Annexation Programs are developed annually. These programs prioritize areas to be considered for annexation, usually at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

The following table sets forth (in acres) the annual results of the City's annexations since 1996

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
1996	3,163	0
1997 (2)	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234
2006	351	621

(1) Includes acres converted from limited purpose to full purpose status

(2) The 1997 annexation program included ten area municipal utility districts

Legislative action required the City to convert the Harris Branch and Moore's Crossing MUDs from full purpose to limited purpose status in 1995. In 1998, the full purpose reannexation of the Harris Branch MUDs is reflected in the table above.

Recent Annexation

The Pearce Lane/Ross Road area, located in southeast Travis County, was converted to full purpose annexation status in December 2006. This annexation area was added to the City of Austin's MAP in 2003 and includes two Del Valle Independent School District sites. Approximately \$83 million in taxable assessed value ("TAV") and over 2,500 residents were added to the City. Sunfield Municipal Utility District No. 2 includes 575 acres southeast of Austin and was annexed for limited purposes in 2006.

In 2005, full purpose annexation of the Springfield and Walnut Creek MAP areas added over \$123 million in taxable assessed value ("TAV") and 375 acres to the City of Austin. Nearly all the remaining Avery Ranch subdivision areas in Williamson County were converted from limited to full purpose annexation status in 2005. A total of 1,914 full purpose acres and over \$140 million in TAV were annexed in 2005. Limited purpose areas annexed included Goodnight Ranch, Watersedge and the Woods at Greenshores.

Approximately \$50 million in TAV was annexed for full purposes in 2004. Over 6,000 acres northwest of the City, known as the Robinson Ranch area, and the 748 acre Ribelin Ranch area, were annexed for limited purposes in June 2004. The Onion Creek area, annexed for full purposes in 2003, added over 1,200 acres, 3,000 residents and \$190 million in TAV to the City. Total estimated TAV annexed in 2003 equaled over \$375 million.

Approximately \$37 million in TAV and over 2,100 new residents were added to the City as a result of the 2002 annexation of the Canterbury Trails subdivision in southwest Austin. Other 2002 annexations included right-of-way tracts, additional tracts in the Avery Ranch subdivision, and other undeveloped tracts. The Wildhorse Area near Decker Lake was annexed for limited purposes in February 2002.

The Del Valle area, located near Austin-Bergstrom International Airport ("ABIA"), was converted to full purpose annexation status in September 2001, and added approximately 2,000 residents to the City. Sections of the Avery Ranch Area were also converted to full purpose status. Other areas annexed in 2001 included over 700 acres of privately owned preserve land, some developed single family, multi family and office tracts and other undeveloped acreage.

Future Annexation

In the next few years a number of areas previously annexed for limited purposes will be converted to full purpose status. MUD's covered by strategic partnership agreements ("SPAs") are planned to be annexed as well as areas included in the City's MAP. The most significant of the identified future annexation areas are shown below.

- Grand Avenue Parkway – full purpose annexation of commercial frontage along IH 35 is scheduled for December 2007,
- Rebelin Ranch and Goodnight Ranch – limited purpose areas with conversions to full purpose status expected to begin in 2007,
- Anderson Mill MUD and adjacent areas – annexation of northwest Austin area was postponed December 2008 per terms of the amended SPA,
- Lost Creek MUD and adjacent areas – southwest Austin area was included in 2005 MAP Annexation, originally scheduled for December 2008, is expected to be postponed. After mediation and arbitration over the terms of a SPA, the MUD voted to appeal the arbitrator's August 2007 ruling which upheld the City's proposal for a SPA with a two-phased annexation,
- North Acres area – northeast Austin area was included in 2005 MAP with full purpose annexation scheduled for December 2008,
- Peninsula area – properties near Lake Austin was included in 2005 MAP with full purpose annexation scheduled for December 2008, and
- Springwoods MUD and adjacent areas – annexation was postponed until December 2007 or later per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects)

Pension Plans

There are three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. State law requires the City to make contributions to the funds in an amount at least equal to the contribution of the employee group.

The Police Officers contribute 13.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, the City contributes 18.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 29.7 years and the Firefighter's Fund over 115.9 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2006, was \$1,974,010,618. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2006, was \$576,125,324. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2006, was \$580,053,954. Actuarial studies were performed for the Municipal Employees Fund and the Police Officer's Fund as of December 31, 2006 and for the Firefighter's Pension Fund as of December 31, 2005.

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2006, due to significant asset losses that occurred in 2000-2002, current contributions to the Municipal Employees Fund are not sufficient to amortize the unfunded liability of the fund. Accordingly, as of December 31, 2005, the Municipal Employees Fund had an infinite funding period and, in the absence of significant actuarial gains, then current contribution rates were not sufficient to support the current benefit structure of the Municipal Employees Fund. However, in 2005 the City implemented a Supplemental Funding Plan which is expected to gradually increase the City's contribution rate to the Municipal Employees Fund to 12.0%. The additional contribution provided pursuant to the SFP is intended to remain in place until the funding period of the Municipal Employees Fund is reduced to below 30 years. Once this occurs the City, at its discretion, may reduce the additional contribution rate provided pursuant to the SFP to a rate that produces a 30-year funding period. Based on current projections and in the absence of significant actuarial losses, the City expects the SFP to enable the Municipal Employees Fund to reduce its funding period to 30 years by the time of the valuation for the period ending December 31, 2014.

See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

Other Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these

benefits. Post retirement benefits include health, dental, and \$1,000 of life insurance. The City pays a portion of the retiree's medical insurance premiums and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service. The City pays the entire cost of the premium for life insurance for the retiree.

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,682 retirees was \$15.5 million in 2006 and \$13.3 million in 2005 for 2,554 retirees.

GASB released the Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-employment Benefits ("OPEB"), in June 2004. The City will be required to implement GASB 45, for the fiscal year beginning October 1, 2007. GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees, (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded, and provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined Annual Required Contribution (ARC) will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer's financial statements. The ARC is the amount that must be provided each year to pay for the cost of future retirees and to amortize the initial OPEB liability over a period of 30 years. There are no requirements to fund the initial OPEB liability or to fund the ARC – they simply must be reported. The City is assessing the legal and accounting implications of GASB 45, if any, which will be applicable to its financial statements beginning with the financial statements for the Fiscal Year 2008.

To date, the City staff has completed an actuarial valuation from an outside consultant regarding the City's OPEB obligations. The valuation indicates a potential OPEB liability in the range of \$556 million to \$1 billion depending upon the City's ability to fund the ARC. There is still a lot of information the City will gather to determine its approach to implementing GASB 45. The City has been working with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to see what effect these would have on reducing the City's OPEB liability and related ARC. In addition, the City plans to fully assess what other jurisdictions are planning to do with their implementation of GASB 45.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$6.9 million for claims and damages at the end of fiscal year 2006. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the respective holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports – The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data with respect to the City of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as APPENDIX B, but for the most recently concluded fiscal year end and (ii) in the main text of the Official Statement under the subcaptions "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, "Valuation and Funded Debt History," "Tax Rates, Levy

and Collection History,” “Ten Largest Taxpayers,” “Property Tax Rate Distribution,” “Current Investments,” “General Fund Revenues and Expenditures and Changes in Fund Balance,” “Municipal Sales Tax,” and “Transfers From Utility Funds” The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2004 unless otherwise noted above The City will provide the update information to each nationally recognized municipal securities information repository (“NRMSIR”) and to any state information depository (“SID”) that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the “SEC”) The Municipal Advisory Council of Texas (the “MAC”) has been designated as the SID for the State of Texas

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”) The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time If audited financial statements are not provided by that time, the City will provide unaudited financial statements by that time and will provide audited financial statements when and if they become available Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation

The City’s current fiscal year is October 1 to September 30 Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change

Material Event Notice – The City will also provide timely notices of certain events relating to the Bonds to certain information vendors The City will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws, (1) principal and interest payment delinquencies, (2) non-payment related defaults, (3) unscheduled draws on debt service reserves reflecting financial difficulties, (4) unscheduled draws on credit enhancements reflecting financial difficulties, (5) substitution of credit or liquidity providers, or their failure to perform, (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds, (7) modifications to rights of holders of the Bonds, (8) Bond calls, (9) defeasance, (10) release, substitution, or sale of property securing repayment of the Bonds, and (11) rating changes with respect to the Bonds In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports” The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”) The foregoing notwithstanding, notices may be made solely by transmitting such filing to the MAC as provided at <http://www.disclosureusa.org>, unless the SEC has withdrawn the interpretative advice stated in its letter to the MAC dated September 7, 2004

Availability of Information from NRMSIRs and SID – The City has agreed to provide the foregoing information to NRMSIRs and any SID only The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so

The MAC has been designated by the State of Texas as a SID The address of the MAC is 600 West 8th Street, P O Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947

Limitations and Amendments – The City has agreed to update information and to provide notices of material events only as described above The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described

herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data will be provided.

Compliance with Prior Undertakings – During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not receive the Comprehensive Audited Financial Report for the fiscal year ended September 30, 2006 (the "CAFR") from its auditors until October 23, 2007. As a result of not receiving the CAFR within 180 days of the end of the City's 2006 Fiscal Year, the City filed unaudited financial statements with the NRMSIRs and the SID, in accordance with its continuing disclosure agreements. On October 13, 2007, the City filed the CAFR with the NRMSIRs and the SID.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date hereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See APPENDIX C - Form of Bond Counsel's Opinion.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (b) the report issued by The Arbitrage Group (see "OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations"), and (c) covenants of the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of any series of the Bonds could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on any series of the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the projects financed with the proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the owners of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the owners of the Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds (referred to herein as the "Original Issue Discount Bonds"), may be less than the principal amount thereof or one or more periods for the payment of interest on of the Bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds, less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS BEFORE DETERMINING WHETHER TO PURCHASE ANY OF THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such bond was acquired at a "market discount" and if the fixed maturity of such bond is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds, although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of "____" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("S&P"), "____" by Fitch Ratings, Inc. ("Fitch") and "____" by Moody's Investors Service, Inc. ("Moody's"). The presently outstanding tax supported debt of the City is rated "____" by S&P, "____" by Fitch and "____" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Bonds. The City will undertake no responsibility to notify the owners of the Bonds of any such revisions or withdrawal of ratings.

Litigation

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

Registration and Qualification

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2), and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions and No-Litigation Certificate

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding obligations of the City and the interest on such Bonds is exempt from federal income taxation under Existing Law. (See "TAX MATTERS") Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the statements and information in the Official Statement under the captions "PLAN OF FINANCING – Refunded Obligations," "BOND INFORMATION" (except for the subcaption "Book-Entry-Only System"), "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings"), "TAX MATTERS," "OTHER RELEVANT INFORMATION - Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION – Legal Opinions and No-Litigation Certificate" and is of the opinion that the statements and information relating to the Bonds and the Ordinance contained therein fairly and accurately describe the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will be printed on or attached to the definitive Bonds. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins LLP. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Financial Advisor

Public Financial Management ("PFM"), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance, sale and delivery of the Bonds. The payment of the fee for services rendered by PFM with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a purchase price, exclusive of accrued interest, of \$_____ (which includes an underwriting discount of \$_____). The Underwriters will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters. The representative of the Underwriters is Lehman Brothers.

Verification of Arithmetical and Mathematical Calculations

The Arbitrage Group, Inc. (the "Verification Agent"), a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by PFM relating to (a) the sufficiency of the anticipated receipts from the Federal Securities and on the Bonds and (b) language regarding yields.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report. The report of the Verification Agent will be relied upon by Bond Counsel in rendering their opinion with respect to the exclusion of interest on the Bonds for federal income tax purposes and with respect to the defeasance of the Refunded Obligations.

Authenticity of Financial Data and Other Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinance adopted by the City Council on January 31, 2008.

/s/Will Wynn

Mayor

City of Austin, Texas

ATTEST

/s/Shirley A. Gentry

City Clerk

City of Austin, Texas